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International Accounting Standards Board  
Mr. Hans Hoogervorst, Chairman  
30 Cannon Street  
London EC4M 6XH  
England

August 13, 2013

**Amendments to proposed IFRS Standard on *Revenue from Contracts with Customers***

Dear Mr. Hoogervorst,

This letter refers to a tentative decision made at the Joint Session of the Boards of the IASB and FASB on July 24, 2013 concerning the above-mentioned proposed Standard on *Revenue from Contracts with Customers*. We see that during this meeting there was a discussion, followed by a tentative decision, concerning how the new Standard would require recognition of a minimum amount of variable consideration in the estimate of the transaction price, when such amount would not result in a significant revenue reversal at a later date.

The second exposure draft for this Standard included an exception for recognition of amounts related to variable consideration arising from sales-based royalties related to licensing intellectual property when such royalties were not defined to be a minimum amount. This exception was proposed after considering comments on feedback received on the first exposure draft.

The Boards however, decided at their meeting in the week commencing December 17, 2012, to delete paragraph 85 for all licenses of intellectual property and to rely on the general principles of the constraint on revenue. At the recent July 24, 2013 meeting of the Boards, the Staff recommended that the recognition of a minimum amount of variable consideration for sales-based royalties should be prohibited when the performance obligation is satisfied at a point in time. This together with an alternative option proposed but not recommended by the Staff, were discussed during the meeting. We now see that tentatively a new proposal was made and accepted by the Boards. This new proposal removes significant parts of the restrictions to record revenue from sales-based royalties and introduces a new concept.

We strongly disagree with the new proposal. We consider that it will be very difficult to apply in the pharmaceuticals industry and, if finally accepted, will be extremely detrimental to the quality of financial reports of pharmaceuticals industry companies for the following reasons:

1. The economic rationale for entering into a sales-based royalty arrangement with another company in the pharmaceuticals industry is often related to sharing the risks and rewards associated with developing and marketing the intellectual property related to a new pharmaceutical substance. Since these risks and rewards arise over a considerable period of time, we therefore consider that it is inappropriate to record any element of the potential value arising from this transaction at the time of entering into the sales-based royalty agreement.
2. Furthermore, we consider that the economic value of the licensing transaction often relies on an assessment about a future event occurring (such as a regulatory approval) and the potential future sales that will subsequently arise. These assumptions are usually associated with a high degree of uncertainty as regards their outcome, timing and expectations of the amount of future sales.

As a result, arriving at the amount to record for this future consideration will be extremely judgemental and difficult to assess and inappropriate for use in such an important area as recognising revenue from customers. Also, we do not consider that current IFRS accounting literature provides sufficient principles-based guidance for the measurement of such minimum sales-based royalties. The two measurement concepts currently described by IFRS are historical cost and fair value and neither are applicable to sales-based royalties for amounts which are not pre-determined.

Thank you in advance for considering our points. Please do not hesitate to contact us at [malcolm.cheetham@novartis.com](mailto:malcolm.cheetham@novartis.com) or [manfred.kaeser@novartis.com](mailto:manfred.kaeser@novartis.com) should you have any questions on this response.

Yours sincerely,



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cc: IASB Technical Director for the *Revenue from Contracts with Customers* project